Audit Report

OFFICE OF THE INSPECTOR GENERAL

COMPREHENSIVE LONG-TERM ENVIRONMENTAL ACTION, NAVY CONTRACT

Report No. 93-097 May 14, 1993

Department of Defense

The following acronyms are used in this report.

CLEAN.....Comprehensive Long-Term Environmental Action, Navy
DERA.....Defense Environmental Restoration Account
DERP.....Defense Environmental Restoration Program
EPA.....Environmental Protection Agency
EFA-NW.....Engineering Field Activity, Northwest, NAVFACENGCOM
GAO.....General Accounting Office
NAVFACENGCOM.....Naval Facilities Engineering Command
OIG.....Office of the Inspector General
RPM.....Remedial Project Manager
SOUTH-DIV.....Southern Engineering Field Division, NAVFACENGCOM
WEST-DIV.....Western Engineering Field Division, NAVFACENGCOM

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

May 14, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

SUBJECT: Audit Report on the Comprehensive Long-Term Environmental Action, Navy Contract (Report No. 93-097)

We are providing this final report for your information and use. This audit was made in response to a request from the Assistant Secretary of the Navy (Installations and Environment).

Comments on a draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Wayne K. Million, Program Director, at (703) 692-2991 (DSN 222-2991) or Mr. Nicholas E. Como, Project Manager, at (703) 692-2996 (DSN 222-2996). Appendix L lists the planned distribution of the report.

Robert J. Lieberman

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-097 **May 14, 1993**
Project No. 2CG-0012

COMPREHENSIVE LONG-TERM ENVIRONMENTAL ACTION, NAVY CONTRACT

EXECUTIVE SUMMARY

Introduction. The Comprehensive Long-Term Environmental Action, Navy (CLEAN) contract is a cost-reimbursement contract that implements the Navy Environmental Installation Restoration Program on a regional basis. The CLEAN contract was awarded as a 1-year contract with up to 9 option years. Each environmental cleanup phase at each remediation site is accomplished with contract task orders. Since 1989, the Navy has awarded eight CLEAN contracts to be implemented at the six Naval engineering field divisions and one engineering field activity. The total award value of these contracts was $920 million.

Objectives. The original objectives of this audit were to determine the effectiveness of the cost-control measures of DoD environmental remediation projects and to follow up on recommendations made in IG, DoD, Report No. 91-069, "Defense Environmental Restoration Program," April 2, 1991. After the audit began, the Assistant Secretary of the Navy (Installations and Environment) asked us to audit the CLEAN contracting method. In April 1992, we agreed to audit the CLEAN contract as it related to our original audit objectives.

Audit Results. For the original objectives of this audit, we determined that the Military Departments adequately established cleanup requirements to comply with Federal law. We did not address cost-estimating procedures for environmental remediation projects for the Navy and Air Force because they used interagency agreements with the Department of Energy; a prior audit report recently covered the problems of using these interagency agreements. In addition, the Army effectively used modeling techniques for re-scoring environmental remediation projects to comply with Federal law as a cost-saving feature. Further, recent Federal and State agreements have greatly facilitated dealings with DoD agencies and Federal and State environmental regulatory agencies. Appendix A summarizes the implementation of prior audit report recommendations.

Cost-control measures for the CLEAN contract were inadequate. As a result, $182,483 of costs billed for a $1.1 million contract were unsupported and $2.8 million of $15 million in contract cost increases was related to inadequate performance. In addition, $34.8 million of billings needs verification (Finding A).

The Navy paid higher award fees than the contractor was entitled to, based on the contractor performance. As a result, the contractor had no incentive to correlate good performance with award fees and was rewarded for inadequate performance. The unjustified payments contributed to cost increases of as much as $900,000 in undeserved award fees (Finding B).

Internal Controls. Navy internal controls were not adequate to provide for an effective contractor invoice review and validation process for the CLEAN contract. We consider the weaknesses to be material. See Part I for details of internal controls reviewed and Part II for details of the internal control weaknesses.

Potential Benefits of Audit. Implementation of the recommendations will allow the Navy to recoup for unsupported contractor billings. Strengthening internal controls and procedures for reviewing billings, contract increases, and award fees will result in additional monetary benefits; however, we could not determine the amount. Appendix J summarizes the potential benefits resulting from the audit.

Summary of Recommendations. We made no recommendations pertaining to the original objectives of the audit. For the CLEAN contract, we recommended that the Navy develop and implement procedures to address contract management and administration deficiencies, to standardize award fee computation, and to improve the award fee management process.

Management Comments. The Navy agreed to implement procedures to verify invoices, monitor direct labor hours, challenge contract cost increases, and satisfy record keeping requirements for monitoring contractor performance. The Navy also established appropriate training courses highlighting contract administration procedures involving environmental cost-reimbursement contracts. The Navy also agreed to compute award fees for each task order individually and to disallow award fees for unsatisfactory performance. A summary of the Navy comments is included in Part II of the report and the complete text of the Navy comments is in Part IV. Additional comments are not required.

TABLE OF CONTENTS

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

TABLE OF CONTENTS (cont'd)

PART I - INTRODUCTION

Background

The audit originally involved an evaluation of cost-control measures over DoD environmental remediation projects. As a result of the Assistant Secretary of the Navy (Installations and Environment) request, we agreed to audit the Comprehensive Long-Term Environmental Action, Navy (CLEAN) contract as it related to our original audit objectives.

The CLEAN contract is a cost-reimbursement contract that implements the Navy Environmental Installation Restoration Program on a regional basis. The CLEAN contract was awarded as a 1-year contract with up to 9 option years. CLEAN incorporates both a prime contractor and subcontractors. Each clean-up phase is accomplished with contract task orders (task orders). The Navy elected to use this cost-reimbursement instrument because of the many unknowns and uncertainties involved in defining contamination problems at hazardous waste sites. The contractor is required to perform all services related to site restoration, from investigation and design to actual oversight of construction of the corrective action. The Navy contends that the CLEAN contracting method accelerates site cleanups by promoting project continuity and eliminating time lost to transfer technical knowledge from one contractor to another. Since 1989, the Navy has awarded eight CLEAN contracts, valued at $920 million, at six Naval engineering field divisions and one engineering field activity.

The CLEAN contract entitles the contractor to reimbursement for all allowable costs and to an award fee determined by the Navy evaluation of contractor performance. In addition, the contractor earns similar award fees on subcontracting costs. The contractor has limited incentives to control costs under this contract type; therefore, the Navy must exercise increased oversight to ensure that the contractor uses efficient methods and effective cost controls.

Objectives

The original objectives of this audit were to determine the effectiveness of the cost-control measures of DoD environmental remediation projects, to evaluate internal controls, and to follow up on recommendations made in IG, DoD, Report No. 91-069, "Defense Environmental Restoration Program," April 2, 1991. Specifically, the original audit evaluated the effectiveness of current DoD practices and procedures for determining the requirements of cleanup costs, the methodology for estimating clean-up costs, and the rationale for contract types awarded.

In March 1992, the Assistant Secretary of the Navy (Installations and Environment) requested an audit of the CLEAN contract to identify potential problems and to determine early "corrections" of the CLEAN contracting instrument. In April 1992, we agreed to focus our audit on the CLEAN contract as it related to our original audit objectives.

Scope

Universe and sample. The scope of this audit originally addressed cost-control procedures for environmental remediation projects that were conducted by the Military Departments. Based on the Navy request, we narrowed the scope of this audit to concentrate on a review of CLEAN contracting procedures.

Military Departments review. In the original scope of the audit, we visited one military installation for each Military Department and one Army and one Naval engineering activity. The three military installations had identified 71 environmental remediation sites and had requested funding of $50.9 million for FY 1992. We reviewed cost-control procedures for determining requirements for environmental remediation projects in accordance with the Comprehensive Environmental Response, Compensation, and Liability Act. Cost-estimating procedures for environmental remediation projects in the Air Force and the Navy (before the CLEAN contract) were performed through interagency agreements with the Department of Energy. We did not address these interagency agreements because the IG, DoD, Report No. 93-042, "Allegations of Improprieties Involving DoD Acquisitions of Services Through the Department of Energy," January 21, 1993, addressed the weaknesses associated with the use of interagency agreements by DoD. We will consider the Army cost-estimating procedures and contracting procedures for environmental remediation projects for future audit coverage. We also reviewed Army cost-control measures for environmental remediation projects attained through the use of modeling techniques. In addition, we examined the Military Departments' procedures for dealings with Federal and State environmental agencies.

CLEAN contract review. We statistically selected three of the eight CLEAN contracts that were managed at two Naval engineering field divisions and one engineering field activity. The three contracts have a total ceiling value of $360 million. We statistically selected 77 of the 220 task orders awarded at the three activities (Appendix B). The value of the 77 task orders, $87.5 million, was 67 percent of the total funds obligated ($131 million) on the three CLEAN contracts as of March 1992. The 77 task orders we reviewed had a maximum available award fee of $4.9 million. We interviewed 29 remedial project managers (RPMs) responsible for the 77 task orders and selected contract personnel at the three locations. We visited two prime contractors and one subcontractor. We tested the

documentation supporting $5.9 million of invoiced costs on 25 task orders with an obligated value of $45.7 million. In addition, we reviewed the basic CLEAN contract files, task order files, selected contractor and subcontractor invoices for the period May 1989 to July 1992; prior Defense Contract Audit Agency and General Accounting Office (GAO) reports; and internal and external correspondence.

Use of technical staff. Office of Inspector General technical staff assisted in this review. Specifically, statisticians helped the auditors define the universe and select the sample of task orders to be audited. Statistical projections were not made on the deficiencies disclosed in the report findings. We could not precisely measure cost benefits to be achieved through verifying contractor invoices, challenging contractor cost increases, or monitoring contractor performance. In addition, we could not measure which portion of the total value of task order modifications in our sample incurred cost growth increases and received award fees.

Audit time periods and standards. This economy and efficiency audit was made from December 1991 to December 1992. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. We did not rely on any computer-generated data to accomplish the audit objectives. Activities visited or contacted are listed in Appendix K.

Internal Controls

During the coverage of the original objectives of this audit, we reviewed internal control procedures for environmental contracting using interagency agreements. Internal control weaknesses using interagency agreements were addressed in IG, DoD, Report No. 93-042. We also reviewed the Military Departments' dealings with Federal and State regulatory agencies and the Army use of modeling techniques to re-score cleanup sites. We did not identify any internal control weaknesses.

For the audit of CLEAN, we evaluated internal controls over Navy funds expended on contracts for environmental remediation projects. We specifically reviewed Navy contractor invoice validation policies and procedures, contractor surveillance techniques, and contractor performance documentation. We determined that one of the three Naval engineering activities we visited conducted a vulnerability assessment of the CLEAN contract. The assessment gave a high vulnerability rating to the CLEAN contracting method because of the length of the CLEAN contract term (10 years) and the inexperience of the Navy

contracting and technical personnel assigned to monitor the CLEAN contract.

We did identify material internal control weaknesses in the CLEAN contracting method as defined by Public Law 97-225, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Navy controls were not established or did not provide for an effective contractor invoice review and validation process and a sound contractor surveillance program. Recommendations A.1. through A.5. if implemented will correct the weaknesses. Appendix J describes the monetary and other benefits that can be realized by implementing the internal-control-related recommendations. A copy of the report will be provided to the senior official responsible for internal controls within the Department of the Navy.

Prior Audits and Other Reviews

No prior audits specifically addressed contract administration, cost control, or internal management practices of areas covered by the original scope of our audit or during our audit of the CLEAN contract. However, the GAO conducted two audits addressing contracting deficiencies in using regional cost-reimbursement contracts, similar to CLEAN, for environmental remediation programs administered by the Environmental Protection Agency (EPA).

o GAO Report No. RCED-88-182, "Superfund Contracts - EPA Needs to Control Contractor Costs," July 29, 1988. GAO found that EPA had not sufficiently monitored, controlled, and challenged contractor expenditures and professional hour usage for remedial studies when using the cost-plus-award-fee (cost-reimbursement) contract. GAO determined that EPA was not adequately reviewing contractor invoices and contractor cost proposals for cleanup studies. Because EPA was not estimating what cleanup studies should cost, EPA had to rely heavily on contractor estimates. The report also stated that EPA contractors judged to have less-than-satisfactory performance earned between 29 and 45 percent of the total available award fee. GAO recommended that EPA communicate the importance of controlling the quality and costs of remedial studies by incorporating explicit language in the EPA contracting and project officer guidance and position descriptions. GAO also recommended that remedial project officers and project managers diligently monitor and control contractor hours and expenditures throughout the duration of remedial study work assignments. To improve equity in the award fee process, GAO recommended amending the award fee structure to shift the appropriate award fee pool to applicable phases of the remedial effort.

o GAO Report No. RCED-92-45, (OSD Case No. 8853-B) "Superfund - EPA Has Not Corrected Long-Standing Contract

Management Problems," October 24, 1991. GAO determined that controls over contractor costs, such as critical reviews of contractor cost proposals and invoices, were still not being fully implemented. GAO recommended that EPA officials establish additional controls to ensure that RPMs review contractor proposals and invoices, develop more complete guidance on responsibilities for invoice review, and provide training to all project managers on how to meet invoice review responsibilities.

o IG, DoD, Report No. 91-069 disclosed that improvements were needed to strengthen policy, controls, and oversight for the use of DERP funds. The report also stated that controls were inadequate to track funding history because data were inaccurate and did not include information from the Army Corps of Engineers on formerly used Defense sites. The report contained six recommendations to correct these deficiencies. The Deputy Assistant Secretary of Defense (Environment) concurred in the recommendations and took appropriate corrective action. Appendix A summarizes the results.

This page was left out of original document

PART II - FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT OF THE COMPREHENSIVE LONG-TERM ENVIRONMENTAL ACTION, NAVY CONTRACT

Naval Facilities Engineering Command (NACFACENGCOM) technical and contract personnel did not adequately monitor, control, or challenge CLEAN contractor-recorded expenditures and contractor performance for remedial studies. The inadequate control occurred because NAVFACENGCOM

- o did not have uniform or approved procedures in place to monitor contractor performance and costs,
- o did not verify contractor-invoiced costs,
- o did not maintain proper documentation on contractor performance, and
- o did not properly train RPMs in their required duties.

As a result, the Navy incurred unsupported subcontractor costs of $182,483 on $1.1 million of invoices for one contract. About $34.8 million of contractor invoices required additional verification. In addition, the Navy did not challenge $15 million of cost increases on 77 task orders valued at $72.5 million. Of the $15-million increase, $2.8 million was attributed to inadequate contractor performance.

DISCUSSION OF DETAILS

Background

Contract type selection guidance. Federal Acquisition Regulation subpart 16.3, "Cost-Reimbursement Contracts," provides general guidelines for applying cost-reimbursement contract principles. The subpart states that cost-reimbursement contracts are appropriate when uncertainties in contract performance do not permit costs to be estimated with sufficient accuracy to use fixed-price contracts. A cost-reimbursement contract should be used only when appropriate Government oversight is implemented to reasonably ensure efficient contract monitoring and effective cost control.

CLEAN contract duties and responsibilities. NAVFACENGCOM issued guidance on interim payments and invoicing procedures in the NAVFACENGCOM Manual P-1070, "CLEAN Contract Manual," July 1992. The manual specifies the duties and responsibilities of the invoice review team members including the duties of technical and financial personnel and contracting officers' technical representatives. The CLEAN Contract Manual also specifies the

appropriate level of review by invoice cost element, the procedures and the data necessary to verify invoices, and the acceptable range of variation between actual versus reported costs for prime and subcontractor invoices.

The Naval engineering field activities are responsible for contract administration for the CLEAN contracts. At the Naval engineering field activities, the contracting officer administers the contract while the RPM monitors and directs all contractor activities at individual remedial sites. Specific RPM responsibilities include

- o developing the technical requirements for the remedial site,
- o preparing an independent Government cost estimate for each task order and task order modification,
- o reviewing the contractor technical and cost proposal,
- o reviewing and certifying invoices for payment,
- o maintaining site files,
- o monitoring contractor performance and providing technical direction when necessary,
- o preparing contractor performance evaluation reports, and
- o providing feedback to the contracting officer.

Contract Administration

Navy invoice review procedures. Under the CLEAN contract, the prime contractor submits monthly invoices for reimbursement of incurred costs to Navy engineering field activity contracting officers. The contracting officers are required to verify and certify contractor billings to ensure that proper and adequate payments are made for the services rendered. The contracting officer relies on the RPM to review the invoices and recommend approval or disapproval for payment. The RPM and the contracting officer are required to certify that invoices are reviewed and that the costs are reasonable, allocable, and allowable. In addition, the prime contractor is responsible for validating invoices of its subcontractors' costs.

We determined that invoice review procedures were deficient at the three activities we audited. The contracting officer and the RPM did not request complete supporting documentation, nor did the prime contractor provide documentation for the 77 sampled task orders. The sampled task orders had total incurred costs paid by the Navy of $40.7 million as of March 1992 (Appendix C).

All 29 RPMs that we interviewed disclosed that only the total dollar value of the monthly invoice was reviewed for reasonableness. Because the Navy did not verify contractor-invoiced costs, the Navy increased its vulnerability to overpricing and unjustified costs.

Prime contractor invoice verification. We visited two of the three prime contractors to obtain an overview of the contractor's invoice-verification procedures for its subcontractor costs. We visited the prime contractor for Engineering Field Activity, Northwest, NAVFACENGCOM (EFA-NW). We selectively reviewed subcontractor-invoiced costs, valued at $4.8 million, for 20 of 27 sampled task orders for an 11-month period between November 1990 and April 1992. We determined that the prime contractor for EFA-NW retained documentation and conducted random tests to verify subcontractor costs. However, we did not test the adequacy of the prime contractor's random test procedures for verifying subcontractor costs.

An officer of the prime contractor for the Western Engineering Field Division, NAVFACENGCOM (WEST-DIV), informed us that he was unaware of his responsibility to verify subcontractor costs. As a result, we visited one WEST-DIV subcontractor and requested all the supporting documentation for subcontractor costs involving 9 selected invoices for 5 of 30 sampled task orders. Supporting documentation was lacking for at least 17 percent of the $1.1 million billed value of the tested invoices. As a result, the Navy incurred unsupported subcontractor costs of $182,483. Appendix D summarizes this analysis.

Challenging contract cost increases. The Navy did not take sufficient action to control cost increases of $15 million on 36 of the 77 sampled task orders we examined valued at $72.5 million (Appendix B). Of the 29 RPMs interviewed, 7 stated that they did not challenge costs because they believed that the contract type required the Navy to pay all costs. In addition, inadequate contractor performance contributed to cost increases in at least 8 of the 36 task orders (Appendix E). The cost of the modifications for the eight task orders with inadequate contractor performance was $2.8 million. We could not determine what portion of the total value of the modifications was applied to correct contractor deficiencies. Since the Navy did not challenge cost increases, the risk of inefficient use of contract resources was increased.

Monitoring contractor professional labor hours. Eight of the 29 RPMs we interviewed did not monitor contractor professional labor hours. Instead, the RPMs focused on the monthly dollar expenditures and did not track professional hour usage. For example, the RPM at Southern Engineering Field Division, NAVFACENGCOM (SOUTH-DIV), did not monitor professional hour usage for task order no. 35. The contractor completely

expended the task order authorization of $1.1 million, including 11,387 professional hours costing $606,400. The contractor then requested an increase of $228,054, which included 1,265 hours costing $66,600, because the contractor expended labor hours for tasks not originally proposed in the statement of work nor identified in the plan of action. The RPM certified and the contracting officer authorized the increase. The Navy was required to fund the cost overrun because professional labor hour usage was not continuously monitored to the contractor's actual performance.

Keeping project records. RPMs did not keep adequate records of contractor performance and expenditures for 38 of 77 task orders in our sample. The records of contractor performance provide a historical basis for decisionmaking by the contracting officer and RPMs on subsequent actions by the contractor. In addition, 15 of the 29 RPMs we interviewed did not document the results of their monitoring actions. As a result, task order information to substantiate contractor performance was not maintained.

Training contract administrators. Contract administration duties and responsibilities are specifically required in RPM position descriptions. At least 9 of the 29 RPMs we interviewed had not received formal training for contract administration. Consequently, effective contract administrative functions were not performed.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Commander, Naval Facilities Engineering Command

1. Require Naval engineering field activities to implement the contractor invoice verification and direct labor hours monitoring procedures in the Naval Facilities Engineering Command Manual P-1070, "CLEAN Contract Manual," July 1992.

Navy comments. The Navy concurred and stated the "CLEAN Contract Manual" was issued in final form in July 1992 and that verifying contractor invoices and monitoring direct labor hours was reinforced during recent Headquarters, NAVFACENGCOM, visits to the field activities. Also, the "CLEAN Contract Manual" is now used as a textbook in environmental cost reimbursement courses that started in FY 1993.

2. Require Naval engineering field activities to sample task orders awarded since the inception of the CLEAN contract, perform invoice reviews using procedures contained in the "CLEAN Contract Manual," and recover any unsupported costs.

Navy comments. The Navy concurred and will issue instructions that will require field activities to sample task orders awarded since the inception of the CLEAN contract, to perform invoice reviews, and to recover any unsupported costs. Planned completion date of the action is December 31, 1993.

3. Revise the "CLEAN Contract Manual," to establish procedures to evaluate proposed contractor cost increases and to create a minimum requirement for record keeping to monitor contractor performance for professional labor hours and expenditures.

Navy comments. The Navy concurred and stated that record keeping procedures to evaluate cost increases are now in the "CLEAN Contract Manual," and are the same as those required in the Federal Acquisition Regulation. In addition, these procedures are reinforced in a Navy environmental contract training course that was first offered April 22, 1992.

4. Direct the Contracting Officer, Western Engineering Field Division, to

a. Recover unsupported subcontractor-invoiced costs of $182,483 (Appendix D).

b. Sample and perform an invoice review of subcontractor costs billed to the prime contractor and recover any unsupported costs.

c. Require the prime contractor to implement invoice review procedures for subcontractors as specified in the "CLEAN Contract Manual."

Navy comments. The Navy concurred and stated that Headquarters, NAVFACENGCOM, will offer assistance to WEST-DIV to review and recover unsupported costs identified in this report and to sample and review for supportability additional subcontractor-invoiced costs. Headquarters, NAVFACENGCOM, will also assist WEST-DIV to ensure that prime contractors initiate subcontractor invoice review procedures as specified in the "CLEAN Contract Manual." The estimated completion date is December 31, 1993.

5. Provide necessary contract administration training to contracting and technical personnel working on the CLEAN contract at Naval engineering field divisions and activities.

Navy comments. The Navy concurred and stated that the "Environmental Cost-Reimbursement Contract Course" was initially offered in April 1992 and that five additional courses will be offered in FY 1993. The course will be offered to contracting

and technical personnel working on the CLEAN contract at Naval engineering field divisions and activities.

Navy comments on the finding. The Navy stated the term of the CLEAN contract is a 1-year contract with option years versus a multiyear contract. The Navy also stated that the preparation of independent Government estimates for task orders and task order modifications should be added to the list of RPM functions. The Navy stated it had difficulty in correlating the reported results that all 29 of the interviewed RPMs reviewed only the total dollar value of the monthly invoice costs but that only 8 of the 29 RPMs did not monitor contractor professional labor hours.

The Navy agreed that inadequate contractor performance contributed to cost increases in some cases. However, the Navy stated that monitoring contractor performance would not necessarily prevent inadequate performance and increased costs. The Navy also stated that modifications no. 5 and 6 to task order no. 5 (EFA-NW) should not be considered to be examples of inadequate contractor performance (Appendix E). Instead, the Navy stated that modifications no. 5 and 6 were established as contingencies to the original task order. The Navy further stated that the original task order is the contractor's best estimate of contract requirements, and that modifications occur when the work plan is adjusted as additional data become available.

The Navy stated that, while RPMs may not challenge invoiced items, cost growth increases were challenged during the preparation of modifications. Further, contractors cannot invoice for cost growth until certain procedures are completed. The procedures involve the contractor notifying the Navy that cost increases will occur, the Navy preparing a statement of work describing the additional requirements, the Navy conducting pre-negotiations and final negotiations with the contractor, the Navy issuing and funding the modification, and the Navy excluding award fees for modifications considered to be cost growth.

Audit response. The requested clarifications involving the CLEAN contract term and the additional RPM function were made to the final report. The Navy confused our analyses regarding verifying invoiced costs and monitoring contractor labor hours. The purpose of our analysis of the Navy invoiced cost verification procedures was to determine whether the RPM and the contracting officer certified that each cost element contained on the invoice was reasonable, allocable, and allowable. Our analysis determined that all 29 RPMs interviewed reviewed only the total dollar value of the contractor invoices for reasonableness, not each cost element. The purpose of our analysis of the Navy professional labor hour monitoring procedures was to

determine whether RPMs verified that labor hours allocated by professional skill level charged to the Navy were actually expended. The analysis also determined whether RPMs compared, by skill level, estimated versus actual labor hours used. As stated in the finding, 8 of the 29 RPMs did not properly monitor labor hour allocation or use and did not verify actual versus reported hours.

We agree with the Navy comment that technically monitoring contractor performance and challenging contractor cost increases will not eliminate such cost increases. However, the absence of proper contractor-monitoring procedures and the reluctance of the RPMs to challenge contractor cost increases add to the risk of inefficient use of DoD funds expended for environmental restoration.

Appendix E lists cost increases that our review determined were directly attributable to inadequate contractor performance. The RPM stated that, for modifications no. 5 and 6 to task order no. 5, the contractor either was aware of the additional requirements or should have been aware of them when the original task order was awarded. We considered incomplete contractor work planning to be inadequate contractor performance.

We agree that the Navy contract cost verification procedures are executed before the contractor sends an invoice to the Navy for incurred costs. However, our review determined that, for 7 of the 77 sampled task orders, the contractor incurred costs over the negotiated amount in the task order and did not always promptly notify the Navy or obtain Navy approval for the additional work. When the contractor incurs costs over the negotiated amount without first informing and obtaining Navy approval, the procedures outlined in the Navy response are ineffective.

This page was left out of original document

B. COMPUTATION OF CONTRACTOR AWARD FEES

The Naval engineering field activities we reviewed inappropriately awarded higher award fees than the contractors were entitled to receive. Higher award fees were paid because Navy award fee procedures gave the contractor nearly 75 percent of the available fee for average performance at two of the three activities we audited. The Navy also used arithmetical averages in computing award fees, which permitted the contractor at two activities to be paid an award fee for inadequate performance. As a result, contractors were not motivated to correlate good performance with award fees and were incorrectly paid $791,500 for average performance and $108,200 for inadequate performance.

DISCUSSION OF DETAILS

Background

Federal Acquisition Regulation 16.404-2, "Cost-Plus-Award-Fee Contracts," October 1991, defines award fees as an amount that may be earned by the contractor in whole or in part based on an evaluation of the contractor's performance. The objective of an award fee, as established under the CLEAN contract, is to afford the contractor an opportunity to earn fees commensurate with the achievement of optimum performance.

CLEAN Award Fee

The award fee pool for the CLEAN contract is the total available amount that can be earned by the contractor. An award fee pool is established for each task order at the inception of the project and is based on the total negotiated costs of performing the task. The award fee the contractor earns each period is calculated by multiplying a percentage established in the contract by the award fee available for that period. The established percentage is the fraction of the award fee earned based on the evaluated level of performance. The award fee is calculated twice a year at WEST-DIV and SOUTH-DIV, and three times a year at EFA-NW. The 77 task orders in our sample had a maximum available award fee of $4.9 million. According to FAR 16.404-2, the contractor cannot dispute the earned award fee.

Computation of award fee percentage. The chart used to compute the award fee percentage did not give the contractor adequate incentive to excel beyond the "marginal" or "satisfactory" levels of performance at two of the three activities we audited.

EFA-NW computation. At EFA-NW, the original award fee percentage chart permitted the contractor to earn 55.5 percent of the award fee for less-than-satisfactory performance. As a

result, EFA-NW modified the chart to more equitably distribute the award fee and to provide the contractor an incentive to improve performance. The level of satisfactory performance remained the same (80 points), but permitted the contractor to receive only 43 percent of the available award fee. The award fee earned under the revised percentage chart versus the original award fee percentage chart was from 0.7 percent to 33 percent lower, or $476,096, for seven evaluation periods (Appendix F). We believe that the modified award fee computation more equitably distributes the award fee based on contractor performance.

WEST-DIV computation. At WEST-DIV, the award fee computation was not adjusted to more equitably distribute the award fee and did not provide the contractor an incentive to improve performance. The WEST-DIV award fee percentage chart considered 80 points to be the satisfactory level of performance, but entitled the contractor to receive nearly three-fourths (74 percent) of the available award fee. We determined that at WEST-DIV, for 6 evaluation periods, the average total performance points ranged from 84 to 90 points. This range of scores provided the contractor between 79.2 to 87 percent of the available award fee of $1.8 million, and earned the contractor $1.5 million in award fees. As a result, the contractor at WEST-DIV received fees of $246,400 greater than he would have received using the revised EFA-NW chart (Appendix G).

SOUTH-DIV computation. At SOUTH-DIV, on the award fee percentage chart for the first two evaluation periods, 80 points was the satisfactory level of performance, and entitled the contractor to receive 50 percent of the available award fee. However, SOUTH-DIV modified the percentage chart to permit the contractor to receive 74 percent of the available award fee for the 80-point score. The modification was effective commencing with the third award fee period. We evaluated the third award fee period at SOUTH-DIV and determined that the total performance points ranged from 53 to 94 points. This range of scores provided the contractor between 0 to 92.2 percent of the award fee and earned the contractor $264,600. As a result, the contractor at SOUTH-DIV received $68,958 more in award fees than he would have received using the revised EFA-NW chart (Appendix H).

Computation of award fees using averaged scores. We determined that monthly evaluation scores for award fees computed at two of the three activities allowed award fees to be paid for marginal or unsatisfactory ratings when the scores were averaged into a final rating to calculate the award fee. The available award fee for the low-rated (marginal or unsatisfactory) task orders was included in the award fee pool, and the award fee was paid on the aggregate rating. We determined that 10 task orders in our sample contained marginal or unsatisfactory rating scores (75 points or lower). For 12 scorings on the 10 task orders, the

individual rating scores, when averaged for the award fee period, paid the contractor a higher award fee than the contractor would have received if the award fee was computed on an individual task order basis. Our analysis showed that $108,173 in award fees was given for marginal or unsatisfactory performance at WEST-DIV and EFA-NW (Appendix I).

For example, task order no. 2 was issued at EFA-NW. Through discussions with the Navy RPM in charge of the project and reviews of documentation in the task order files, we found that work performed by the contractor under this task order was clearly inadequate. For the sixth evaluation period, the overall average award fee rating for task order no. 2 was 5.7 percent, which would not allow the contractor to receive any fee for that period. However, the overall average award fee rating for the sixth evaluation period on all task orders assigned to the contractor was 82.16 percent. Therefore, the rating of one task order for one rating period did not materially affect the overall amount of award fee earned by the contractor and did not reflect the contractor's poor performance on certain task orders.

"Cap" labor rates. Labor rates included in the available award fee pool contributed to inflated award fees at one of the three activities. At SOUTH-DIV, the inflated award fees occurred because the contractor proposals were prepared using cap labor rates. Cap labor rates are the maximum rates that the Navy will reimburse the contractor for a given professional skill level. Although the contractor was reimbursed the lessor of actual or cap rates on incurred costs, the award fee pool was computed based on the cap labor rates. Using cap labor rates permitted the contractor to receive a higher award fee than would have been available if composite labor rates (average hourly labor rates for specific skill levels) had been used. SOUTH-DIV agreed to begin using composite labor rates commencing with the fifth award fee period, effective October 1, 1992. Therefore, no recommendation was made regarding use of cap labor rates.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Commander, Naval Facilities Engineering Command

1. Direct the Western Engineering Field Division and the Southern Engineering Field Division to revise their award fee percentage charts to more equitably distribute the award fee in order to provide the contractor an incentive to improve performance.

2. Direct the remaining Naval engineering field activities administering the CLEAN contract to review their award fee percentage charts and to revise those charts that do not equitably distribute award fees based on contractor performance.

3. Establish procedures to compute award fees based on individual task order ratings, not on an average of all task order ratings.

Navy comments. The Navy concurred with the intent of Recommendations B.1. and B.2., proposing alternative actions, and concurred with Recommendation B.3. The Navy stated it prepared a revised award fee plan that calculates award fees on the remaining task orders on an individual basis and excludes payment of award fees for unsatisfactory performance on task orders. The Fee Determination Official, a member of the engineering field division contracting team, will make the final decision on the total amount of the award fee paid to the contractor. The Fee Determination Official may weigh other factors in the total award fee payment such as specific elements of performance on individual task orders, trends in performance on all task orders, and any general economic or business trends that may affect performance capability. The proposed alternative plan will be used on all of the CLEAN contracts administered by the Navy. The Navy stated the new award fee plan will be negotiated into all CLEAN contracts by December 31, 1993.

Audit response. The Navy actions satisfy the intent of the recommendations. Computing the award fee for task orders on an individual basis and disallowing award fees for unsatisfactory performance for all of the Navy CLEAN contracts will compensate for adjusting the award fee percentage charts that earned the contractor a disproportionate share of the award fee for marginal or unsatisfactory performance. The proposed action will also more equitably distribute award fees and still provide the contractor an incentive to improve performance.

PART III - ADDITIONAL INFORMATION

This page was left out of original document

APPENDIX A - FOLLOW UP ON IG, DOD, REPORT NO. 91-069, "DEFENSE ENVIRONMENTAL RESTORATION PROGRAM," APRIL 2, 1991

The following recommendations were addressed to the Deputy Assistant Secretary of Defense (Environment).

Finding A. Use of Defense Environmental Restoration Program Funds

Audit Recommendation

Provide specific and timely policies and guidance defining activities that are eligible for DERP funding, including definitions and terminology.

Corrective Action Taken

The revised version of DoD Directive 5100.50, "Protection and Enhancement of Environmental Quality," is tentatively scheduled to be issued in mid-1993. The directive will specifically address installation restoration and will provide policy in the areas of stewardship and compliance with laws and regulations. The Deputy Assistant Secretary of Defense (Environment) is revising its November 15, 1991, memorandum, "Management Guidance for Execution of the FY 1992-93 Defense Environmental Restoration Program." The memorandum will supplement DoD Directive 5100.50 and will help the Military Departments determine the eligibility of projects for Defense Environmental Restoration Account (DERA) funds.

Audit Recommendation

Approve projects in areas not specifically addressed by DERP guidance and where eligibility cannot be determined at the Component level using methodology approved by the Deputy Assistant Secretary of Defense (Environment).

Corrective Action Taken

As of April 1993, the Deputy Assistant Secretary of Defense (Environment) is reviewing the Military Departments' comments on the draft DoD Manual DoD 5000.50-M, "DERP Manual." The manual will help the Military Departments determine the eligibility of projects at active and formerly used Defense sites and third-party sites for DERA funding and for base realignment and closure actions.

Finding B. Control of Environmental Restoration Funds

Audit Recommendation

Establish a uniform definition for the term "site" in coordination with the EPA or define "site" for accounting purposes, and establish policy for DoD Components to report cost by site.

Corrective Action Taken

In November 1992, the Deputy Assistant Secretary of Defense (Environment) published the Restoration Management Information System Data Definition (Data Dictionary). With the Corporate Information Management Initiative, the Data Dictionary provides a uniform definition for the term "site".

Audit Recommendation

Add the formerly used Defense sites controlled by the Army Corps of Engineers to the DERP Management Information System.

Corrective Action Taken

Formerly used Defense sites were added to the DERP Management Information System and were included in the FY 1990 Annual Report to Congress. The list includes sites eligible for remedial activity under the reporting jurisdiction of the DERP.

Audit Recommendation

Establish procedures to reconcile and adjust amounts entered into the DERP Management Information System with actual obligations and expenditures.

Corrective Action Taken

The DERP Management Information System was replaced with the Restoration Management Information System. The new system records sites, historical costs, and contamination dates. The Corporate Information Management Initiative will further improve recording of sites, historical costs, contamination dates, and National Priority List status. The ultimate objective is to account for all technical activity that the Military Departments will encounter in environmental issues.

Audit Recommendation

Institute procedures and controls to ensure that funds from DERP are used only for environmental restoration purposes and are not lost to further use by the program. The procedures and controls should be coordinated with the Comptroller of the Department of Defense and the General Counsel of the Department of Defense to establish accounting procedures and practices necessary to control funds.

Corrective Action Taken

The Deputy Assistant Secretary of Defense (Environment) instituted procedures and controls to ensure that funds from DERP are used only for environmental restoration purposes specified in the DERP manual and in the current management guidance. The Deputy Assistant Secretary of Defense (Environment) tracks DERA funds by conducting quarterly in-progress reviews with each Military Department. The reviews monitor planned and obligated DERA funds on a DoD-wide basis. The Deputy Assistant Secretary of Defense (Environment) also tracks DERA funds on an annual basis as part of the normal budgetary review procedure established in U.S.C., title 10, section 2702.

This page was left out of original document

APPENDIX B - SUMMARY OF AUDIT UNIVERSE AND SAMPLED TASK ORDERS

Audit Universe[1]

Activity	Contract Number	Number of Task Orders Awarded[2]	Obligated Value[2] (millions)	Ceiling Amount (millions)
WEST-DIV	N62474-88-D-5086	121	$66.7	$130.0
EFA-NW	N62474-89-D-9295	67	50.2	130.0
SOUTH-DIV	N62467-89-D-0317	32	14.1	100.0
Total		220	$131.0	$360.0

Sampled Task Orders Summary

Activity	Number of Task Orders	Negotiated Value of Task Orders (millions)	Number of Mods[3]	Negotiated Value of Mods (millions)	Total Value of Task Order Including Mods (millions)
WEST-DIV	30	$39.4	31	$ 1.8	$41.2
EFA-NW	27	22.5	60	11.2	33.7
SOUTH-DIV	20	10.6	13	2.0	12.6
Total	77[4]	$72.5	104	$15.0	$87.5

See footnotes at end of appendix.

APPENDIX B - SUMMARY OF AUDIT UNIVERSE AND SAMPLED TASK ORDERS
(cont'd)

Western Engineering Field Division[5]

Task Order Number	Negotiated Value	Number of Mods	Mod Value	Total
3	$ 380,226	0	$ 0	$ 380,226
5	137,936	1	0	137,936
7	1,551,438	0	0	1,551,438
9	1,108,536	0	0	1,108,536
10	74,657	1	51,830	126,487
15	71,560	2	53,561	125,121
30	2,590,919	0	0	2,590,919
36	61,948	8	520,875	582,823
38	379,144	4	19,237	398,381
51	2,898,358	0	0	2,898,358
52	3,330,182	0	0	3,330,182
57	11,626,318	0	0	11,626,318
77	1,000	1	130,039	131,039
84	91,854	0	0	91,854
85	324,268	0	0	324,268
99	304,499	1	266,570	571,069
100	6,500	1	467	6,967
103	201,464	0	0	201,464
107	5,407,261	3	170,791	5,578,052
114	1,008,109	3	5,515	1,013,624
116	44,638	5	71,732	116,370
121	1,838,780	1	521,781	2,360,561
130	1,890,074	0	0	1,890,074
132	299,120	0	0	299,120
138	196,822	0	0	196,822
152	88,564	0	0	88,564
154	129,094	0	0	129,094
167	149,977	0	0	149,977
170	1,575,001	0	0	1,575,001
172	1,608,326	0	0	1,608,326
Total	$39,376,573	31	$1,812,398	$41,188,971

See footnotes at end of appendix.

APPENDIX B - SUMMARY OF AUDIT UNIVERSE AND SAMPLED TASK ORDERS
(cont'd)

Engineering Field Activity, Northwest[6]

Task Order Number	Negotiated Value	Number of Mods	Mod Value	Total
2	$ 815,735	5	$ 367,232	$ 1,182,967
5	600,000	9	3,239,486	3,839,486
6	6,000	2	45,885	51,885
10	1,468,764	3	2,751,992	4,220,756
14	82,913	3	94,205	177,118
17	944,244	4	1,024,407	1,968,651
18	4,000,000	2	719,301	4,719,301
19	775,000	0	0	775,000
21	841,044	4	303,472	1,144,516
28	736,791	4	383,123	1,119,914
29	70,000	5	92,163	162,163
30	415,464	1	243,119	658,583
31	1,665,826	3	579,593	2,245,419
33	178,191	4	189,008	367,199
38	1,603,029	4	312,662	1,915,691
42	2,109,068	1	66,617	2,175,685
43	586,787	2	0	586,787
44	56,288	2	0	56,288
51	177,991	1	0	177,991
54	3,437,349	0	0	3,437,349
56	138,008	0	0	138,008
58	1,484,062	1	754,411	2,238,473
61	114,491	0	0	114,491
63	119,305	0	0	119,305
64	83,623	0	0	83,623
65	0	0	0	0
69	0	0	0	0
Total	$22,509,973	60	$11,166,676	$33,676,649

See footnotes at end of appendix.

APPENDIX B - SUMMARY OF AUDIT UNIVERSE AND SAMPLED TASK ORDERS
(cont'd)

Southern Engineering Field Division[7]

Task Order Number	Negotiated Value	Number of Mods	Mod Value	Total
3	$ 66,842	1	$ 162,783	$ 229,625
4	660,515	1	17,874	678,389
6	74,166	3	172,208	246,374
7	215,623	1	23,446	239,069
8	848,406	0	0	848,406
9	619,324	1	400,000	1,019,324
13	45,888	0	0	45,888
14	197,394	1	45,000	242,394
23	229,675	0	0	229,675
24	11,000	2	303,354	314,354
26	423,700	0	0	423,700
28	22,000	1	768,919	790,919
30	53,520	0	0	53,520
31	610,811	0	0	610,811
32	461,496	0	0	461,496
35	1,146,101	0	0	1,146,101
39	343,054	0	0	343,054
40	3,142,734	2	71,196	3,213,930
41	1,413,543	0	0	1,413,543
	74,792	0	0	74,792
Total	$10,660,584	13	$1,964,780	$12,625,364

[1]The audit universe consisted of installation restoration projects funded under DERA.
[2]The number of task orders awarded and the obligated value for WEST-DIV was as of January 1992; for EFA-NW and SOUTH-DIV, February 1992.
[3]Mods = task order modifications.
[4]Thirty-six task orders contained modifications with monetary increases.
[5]Sample taken from data compiled by WEST-DIV during January 1992.
[6]Sample taken from data compiled by EFA-NW during February 1992.
[7]Sample taken from data compiled by SOUTH-DIV during February 1992.

APPENDIX C - SAMPLE OF INVOICED COSTS

Western Engineering Field Division[1]

Task Order Number	Invoiced Costs as of March 1992	Percent of Task Order Invoiced
3	$ 132,239	35
5	112,110	81
7	501,823	32
9	1,065,611	96
10	122,902	97
15	109,007	87
30	2,391,998	92
36	563,643	97
38	398,143	100
51	1,846,318	64
52	546,604	16
57	5,877,795	50
77	89,935	69
84	77,296	84
85	319,361	98
99	508,520	89
100	6,871	99
103	180,895	90
107	1,528,584	27
114	621,113	61
116	73,388	63
121	1,020,902	43
130	1,239,780	66
132	204,130	68
138	35,124	18
152	66,603	75
154	47,416	37
167	142,372	95
170	73,690	5
172	145,976	9
Total	$20,050,149	

See footnotes at end of appendix.

APPENDIX C - SAMPLE OF INVOICED COSTS (cont'd)

Engineering Field Activity, Northwest[2]

Task Order Number	Invoiced Costs as of March 1992	Percent of Task Order Invoiced
2	$ 1,153,837	97
5	2,837,913	74
6	46,344	89
10	1,572,221	39
14	167,547	95
17	1,671,160	85
18	4,619,563	98
19	762,249	98
21	1,085,604	100
28	967,640	86
29	155,311	96
30	492,861	75
31	947,913	43
33	337,523	92
38	804,053	42
42	272,794	12
43	466,252	79
44	50,740	90
51	107,322	60
54	25,676	1
56	67,687	49
58	179,562	12
61	2,846	2
63	67,295	56
64	30,165	36
65	0	0
69	0	0
Total	$18,892,078	

See footnotes at end of appendix.

Southern Engineering Field Division[3]

Task Order Number	Invoiced Costs as of March 1992	Percent of Task Order Invoiced
3	$ 107,931	47
4	396,655	58
6	144,352	59
7	169,618	71
8	20,801	2
9	196,289	19
13	8,831	19
14	209,272	86
23	174,048	76
24	7,777	2
26	10,246	2
28	31,362	4
30	31,418	59
31	21,636	3
32	18,038	4
35	166,284	14
39	0	0
40	0	0
41	0	0
44	0	0
Total	$1,714,558	

See footnotes at end of appendix.

Sample of Invoiced Costs Summary

Activity	Number of Task Orders	Invoiced Contractor Costs as of March 1992
WEST-DIV	30	$20,050,149
EFA-NW	27	18,892,078
SOUTH-DIV	20	1,714,558
Total	77	$40,656,785[4]

[1]Sample taken from data compiled by WEST-DIV during January 1992.
[2]Sample taken from data compiled by EFA-NW during February 1992.
[3]Sample taken from data compiled by SOUTH-DIV during February 1992.
[4]Includes $1.1 million of invoices and contractor documentation at WEST-DIV and $4.8 million of invoices and contractor documentation at EFA-NW that were reviewed in detail.

APPENDIX D - SUMMARY OF WESTERN ENGINEERING FIELD DIVISION TESTED SUBCONTRACTOR COSTS

Task Order Number	Invoice Paid	Voucher Number	Total Subcontractor Costs	Total Unsupported Costs	Cost Category
52	Nov.-Dec. 1991	CTO 0052-07	$173,626.83	$ 2,465.85	Direct Labor
				533.48	Outside Service
				66.69	Freight/Postage
				1.27	Telephone
				662.92	Computer
				105.36	Miscellaneous
				117.32	Mileage
				685.07	Travel
				12.00	Equip/Supplies
				38,431.83	Undocumented
				$43,081.79	
52	Feb.-Mar. 1992	CTO 0052-10	$291,908.42	$ 7,426.99	Direct Labor
				107.66	Freight/Postage
				348.08	Telephone
				2,614.60	Computer
				15.26	Reproduction
				218.80	Travel
				2,242.54	Equip/Supplies
				3,477.48	Undocumented
				$16,451.41	

APPENDIX D - SUMMARY OF WESTERN ENGINEERING FIELD DIVISION TESTED SUBCONTRACTOR COSTS (cont'd)

Task Order Number	Invoice Paid	Voucher Number	Total Subcontractor Costs	Total Unsupported Costs	Cost Category
107	Sept.-Oct. 1991	CTO 0107-10	$105,564.00	$3,865.22	Direct Labor
				45.38	Outside Services
				249.63	Freight/Postage
				1,650.08	Computer
				$5,810.31	
107	Feb.-Mar. 1992	CTO 0107-16	$105,692.18	$ 492.70	Direct Labor
				9.50	Freight/Postage
				280.67	Telephone
				1,775.08	Computer
				84.00	Mileage
				8,618.83	Equip/Supplies
				7,161.54	Undocumented
				$18,422.32	

APPENDIX D - SUMMARY OF WESTERN ENGINEERING FIELD DIVISION TESTED SUBCONTRACTOR COSTS (cont'd)

Task Order Number	Invoice Paid	Voucher Number	Total Subcontractor Costs	Total Unsupported Costs	Cost Category
114	Nov.-Dec. 1991	CTO 0114-08	$124,971.10	$ 901.31	Direct Labor
				1,505.91	Outside Services
				9.50	Freight/Postage
				933.16	Computer
				$3,349.88	
114	Feb.-Mar. 1992	CTO 0114-11	$ 30,333.39	$3,138.13	Direct Labor
				3,279.01	Freight/Postage
				2,026.40	Computer
				$8,443.54	
121	Aug.-Sept. 1991	CTO 0121-07	$ 70,983.46	$1,603.59	Direct Labor
				36.30	Outside Services
				780.04	Travel
				18.10	Freight/Postage
				350.48	Computer
				64.86	Equipment
				$1,040.61	Undocumented
				$3,893.98	

APPENDIX D - SUMMARY OF WESTERN ENGINEERING FIELD DIVISION TESTED SUBCONTRACTOR COSTS (cont'd)

Task Order Number	Invoice Paid	Voucher Number	Total Subcontractor Costs	Total Unsupported Costs	Cost Category
121	Mar.-Apr. 1992	CTO 0121-13	$ 145,318.77	$ 1,824.20	Direct Labor
				108.94	Outside Services
				1,758.56	Computer
				24.21	Telephone
				.77	Reproduction
				28.50	Freight/Postage
				74,442.03	Undocumented
				$ 78,187.21	
132	Sept. 1991	CTO 0132-07	$ 31,022.59	$ 1,931.04	Direct Labor
				1,583.28	Computer
				22.40	Travel-Mileage
				13.10	Freight/Postage
				8.85	Telephone
				1,283.68	Outside Services
				$ 4,842.35	
Total Subcontractor Costs Invoiced			$1,079,420.74		
Total Unsupported Subcontractor Costs				$182,482.79	

APPENDIX E - COST INCREASES ATTRIBUTED TO CONTRACTOR PERFORMANCE

Activity	Task Order Number	Description of Inadequate Work	Total Value of Modifications[1]
WEST-DIV	15	- Inadequate work plans. - Marginal scheduling, cost control, and quality management.	$ 53,561
EFA-NW	2	- Misinstalled monitoring wells. - Poor laboratory work. - Cost overruns.	367,232
	5	- Laboratory samples broken twice. - Incorrect project plans.	1,434,886
	6	- Final report contained inadequate results.	51,885
	51	- Improper laboratory procedures resulted in unusable data.	187,916[2]
	58	- Contractor sampled in wrong place.	51,307

See footnotes at end of appendix.

APPENDIX E - COST INCREASES ATTRIBUTED TO CONTRACTOR PERFORMANCE
(cont'd)

Activity	Task Order Number	Description of Inadequate Work	Total Value of Modifications
SOUTH-DIV	3	- Project deliverable required five submissions before considered adequate by the Navy.	$ 223,119
	9	- Inaccurate and incomplete contractor estimate.	400,000
Total[3]			$2,769,906

[1]Includes dollar values of all modifications issued against the task order and does not include the amount of the basic award.
[2]Task order number 51, valued at $177,991, was issued to recollect the samples and laboratory data lost due to the improper laboratory procedures used under task order number 19. The amount includes $9,925 for cost growth caused by additional level work for unsatisfactory lab results. The cost was identified in modification number 3, task order number 19.
[3]Represents the sum of the total value of all modifications issued against task orders that we found experienced events of inadequate work. Task orders may include work not associated with inadequate performance.

APPENDIX F - ENGINEERING FIELD ACTIVITY, NORTHWEST, ORIGINAL VERSUS REVISED AWARD FEES

Award Fee Evaluation Period	Task Order Performance Score	Percent of Award Fee Payable Per Original Chart	Per Revised Chart	Percent Decreased
PMO Calculation*				
June 1989-Dec. 1989	82.12	76.70	51.50	25.20
Dec. 1989-June 1990	89.00	85.70	85.00	.70
June 1990-Oct. 1990	88.00	84.40	80.00	4.40
Oct. 1990-Feb. 1991	78.43	68.19	35.30	32.89
Feb. 1991-June 1991	84.25	79.20	60.50	18.70
June 1991-Oct. 1991	83.00	77.90	55.00	22.90
Oct. 1991-Feb. 1992	80.00	74.00	43.00	31.00
Task Order Calculation				
June 1989-Dec. 1989	82.12	76.70	51.50	25.20
Dec. 1989-June 1990	89.00	85.70	85.00	.70
June 1990-Oct. 1990	84.00	79.20	59.00	20.20
Oct. 1990-Feb. 1991	88.33	84.83	81.60	3.23
Feb. 1991-June 1991	87.05	83.10	75.20	7.90
June 1991-Oct. 1991	83.00	77.90	55.00	22.90
Oct. 1991-Feb. 1992	84.00	79.20	59.00	20.20

Range (original vs. revised) in percent of award fee payable = 0.7 to 32.89 percent.

*EFA-NW evaluates prime contractor administrative management of the CLEAN contract separately from the contractor's technical performance.

APPENDIX F - ENGINEERING FIELD ACTIVITY, NORTHWEST, ORIGINAL VERSUS REVISED AWARD FEES
(cont'd)

Award Fee Evaluation Period	Available Award Fee	Amount of Award Fee Payable Per Original Chart	Amount of Award Fee Payable Per Revised Chart	Amount Decreased
PMO Calculation				
June 1989-Dec. 1989	$ 54,507	$ 41,807	$ 28,071	$ 13,736
Dec. 1989-June 1990	56,324	48,270	47,875	395
June 1990-Oct. 1990	41,992	35,441	33,594	1,847
Oct. 1990-Feb. 1991	41,992	28,634	14,823	13,811
Feb. 1991-June 1991	41,993	66,517	25,406	41,111
June 1991-Oct. 1991	63,816	49,713	35,099	14,614
Oct. 1991-Feb. 1992	55,732	41,242	23,965	17,277
	$356,356	$311,624	$208,833	$102,791
Task Order Calculation				
June 1989-Dec. 1989	$ 13,962	$ 10,709	$ 7,190	$ 3,519
Dec. 1989-June 1990	70,518	60,434	59,940	494
June 1990-Oct. 1990	662,550	524,740	390,905	133,835
Oct. 1990-Feb. 1991	186,182	157,938	151,925	6,013
Feb. 1991-June 1991	223,448	185,685	168,033	17,652
June 1991-Oct. 1991	560,389	436,543	308,214	128,329
Oct. 1991-Feb. 1992	413,182	327,240	243,777	83,463
	$2,130,231	$1,703,289	$1,329,984	$373,305

Total difference (original vs. revised) in award fee payable = $476,096

APPENDIX G - COMPARISON OF WESTERN ENGINEERING FIELD DIVISION AWARD FEE CONVERSION CHART TO ENGINEERING FIELD ACTIVITY, NORTHWEST, REVISED CONVERSION CHART

Award Fee Period	Task Order Score	Available Award Fee	Percent of Award Fee Payable* Per WEST-DIV Chart	Percent of Award Fee Payable* Per EFA-NW Chart	Amount of Award Fee Payable Per WEST-DIV Chart	Amount of Award Fee Payable Per EFA-NW Chart	Amount Difference
June 1989-Sept. 1989	86	$ 34,659	81.8	70.0	$ 28,351	$ 24,262	$ 4,089
Oct. 1989-Jan. 1990	90	65,115	87.0	88.0	56,650	57,301	(651)
Feb. 1990-May 1990	89	82,393	85.7	85.0	70,610	70,034	576
June 1990-Nov. 1990	89	270,085	85.7	85.0	231,463	229,573	1,890
Dec. 1990-May 1991	86	478,907	81.8	70.0	391,746	335,235	56,511
June 1991-Nov. 1991	84	910,973	79.2	59.0	721,491	537,474	184,017
Total		$1,842,132			$1,500,311	$1,253,879	$246,432

*Difference (WEST-DIV vs. EFA-NW) in percent of award fee payable ranged from - 1.0 percent to 20.2 percent.

This page was left out of original document

APPENDIX H - COMPARISON OF SOUTHERN ENGINEERING FIELD DIVISION AWARD FEE CONVERSION CHART TO ENGINEERING FIELD ACTIVITY, NORTHWEST, REVISED CONVERSION CHART

Task Order Number	Task Order Performance Score	Available Award Fee	Percent of Award Fee Payable Per SOUTH-DIV* Chart	Percent of Award Fee Payable Per EFA-NW Chart	Amount of Award Fee Payable Per SOUTH-DIV Chart	Amount of Award Fee Payable Per EFA-NW Chart	Difference
1	80	$42,960.93	50.0	43.0	$21,480.47	$18,473.20	$3,007.27
2	76	4,302.41	59.2	28.0	2,547.03	1,204.67	1,342.36
3	70	9,227.63	37.0	10.0	3,414.22	922.76	2,491.46
4	89	16,024.56	85.7	85.0	13,733.05	13,620.88	112.17
5	94	4,579.43	92.2	97.0	4,222.23	4,442.05	(219.82)
6	80	6,363.04	74.0	43.0	4,708.65	2,736.11	1,972.54
7	79	8,215.09	70.3	37.0	5,775.21	3,039.58	2,735.63
8	86	15,379.00	81.8	70.0	12,580.02	10,765.30	1,814.72
9	85	28,452.90	80.5	65.0	22,904.58	18,494.39	4,410.19
12	82	3,383.53	76.6	51.0	2,591.78	1,725.60	866.18
14	53	4,667.28	0	0	0	0	0
15	69	1,470.24	33.3	9.0	489.59	132.32	357.27
16	79	1,062.86	70.3	37.0	747.19	393.26	353.93
17	94	7,899.17	92.2	97.0	7,283.03	7,622.19	(379.16)
18	82	940.21	76.6	51.0	720.20	479.51	240.69
19	81	752.77	75.3	47.0	566.84	353.80	213.04
21	78	4,731.69	66.6	34.0	3,151.31	1,608.77	1,542.54
23	78	4,172.06	66.6	34.0	2,778.59	1,418.50	1,360.09
25	93	8,312.46	90.9	96.5	7,556.03	8,021.52	(465.49)
26	94	7,649.17	92.2	97.0	7,052.53	7,419.69	(367.16)
27	86	1,444.69	81.8	70.0	1,181.76	1,011.28	170.48
28	93	25,029.64	90.9	96.5	22,751.94	24,153.60	(1,401.66)
29	86	4,130.89	81.8	70.0	3,379.07	2,891.62	487.45
30	54	3,475.67	0	0	0	0	0
31	80	5,366.79	74.0	43.0	3,971.42	2,307.72	1,663.70
32	84	5,627.60	79.2	59.0	4,457.06	3,320.28	1,136.78
33	91	3,890.40	88.3	91.0	3,435.22	3,540.26	(105.04)
34	94	6,851.00	92.2	97.0	6,316.62	6,645.47	(328.85)
35	75	46,028.95	55.5	20.0	25,546.07	9,205.79	16,340.28

*Third award fee evaluation period.

APPENDIX H - COMPARISON OF SOUTHERN ENGINEERING FIELD DIVISION AWARD FEE CONVERSION CHART TO ENGINEERING FIELD ACTIVITY, NORTHWEST, REVISED CONVERSION CHART (cont'd)

Task Order Number	Task Order Performance Score	Available Award Fee	Percent of Award Fee Payable Per SOUTH-DIV Chart	Percent of Award Fee Payable Per EFA-NW Chart	Amount of Award Fee Payable Per SOUTH-DIV Chart	Amount of Award Fee Payable Per EFA-NW Chart	Difference
36	67	$ 51,824.50	25.9	7.0	$ 13,422.55	$ 3,627.72	$ 9,794.83
37	56	4,358.96	0	0	0	0	0
39	94	5,597.28	92.2	97.0	5,160.69	5,429.36	(268.67)
40	81	37,506.42	75.3	47.0	28,242.33	17,628.02	10,614.31
41	73	16,326.86	48.1	16.0	7,853.22	2,612.30	5,240.92
42	80	487.09	74.0	43.0	360.45	209.45	151.00
43	91	3,231.81	88.3	91.0	2,853.69	2,940.95	(87.26)
45	76	5,986.40	59.2	28.0	3,543.95	1,676.19	1,867.76
46	81	1,660.10	75.3	47.0	1,250.06	780.25	469.81
47	80	3,097.80	74.0	43.0	2,292.37	1,332.05	960.32
48	86	4,134.72	81.8	70.0	3,382.20	2,894.30	487.90
49	80	1,212.12	74.0	43.0	896.97	521.21	375.76
Total		$417,816.12			$264,600.19	$195,641.92	$68,958.27

APPENDIX I - COMPUTATION OF AWARD FEES USING AVERAGED SCORES

Activity	Task Order No.	Evaluation Period	Task Order Rating	Aggregate Rating for Evaluation Period	Amount of Award Fee Payable: Per Individual Task Order	Amount of Award Fee Payable: Per Aggregate Rating	Difference
WEST-DIV	15	Dec. 1990-May 1991	71.00	86.00	$ 114	$ 228	$ 114
	57	Dec. 1990-May 1991	63.00	86.00	10,331	76,136	65,805
EFA-NW	2	June 1990-Oct. 1990	75.00	84.00	31,088	44,363	13,275
	2	June 1991-Oct. 1991	5.70	83.00	0	7,590	7,590
	6	June 1990-Oct. 1990	75.25	84.00	653	931	278
	14	June 1991-Oct. 1991	67.73	83.00	681	2,049	1,368
	17	June 1991-Oct. 1991	72.94	83.00	12,821	20,764	7,943
	21	June 1991-Oct. 1991	5.70	83.00	0	5,552	5,552
	28	Oct. 1990-Feb. 1991	71.38	88.33	595	1,240	645
	28	Feb. 1991-June 1991	71.25	87.05	1,190	2,431	1,241
	30	Oct. 1991-Feb. 1992	74.23	84.00	3,659	5,595	1,936
	33	Oct. 1990-Feb. 1991	75.06	88.33	170	2,596	2,426
Total					$61,302	$169,475	$108,173

This page was left out of original document

APPENDIX J - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Internal Controls. Reinforces Naval policies contained in the CLEAN Contract Manual.	Nonmonetary.
A.2.	Internal Controls. Verifies and recovers unsupported contractor invoiced costs.	Undeterminable.[1]
A.3.	Internal Controls. Modifies the CLEAN Contract Manual to establish procedures for evaluating contractor cost increases, recordkeeping, and monitoring contractor performance.	Nonmonetary.
A.4.a.	Internal Controls. Verifies and recovers unsupported subcontractor-invoiced costs.	Questioned costs of as much as $182,483.[2]
A.4.b.	Internal Controls. Requires an invoice review of subcontractor costs and recovers unsupported costs.	Nonmonetary.
A.4.c.	Internal Controls. Requires the prime contractor to implement invoice review procedures for subcontractors.	Nonmonetary.
A.5.	Internal Controls. Implements training requirements for contracting and technical personnel.	Nonmonetary.

See footnotes at end of appendix.

APPENDIX J - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT (cont'd)

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.1.	Economy and Efficiency. Revises an award fee percentage chart to equate performance with fees.	Undeterminable.[3]
B.2.	Economy and Efficiency. Reviews award fee percentage charts to use an award fee conversion that equates performance with fees.	Nonmonetary.
B.3.	Economy and Efficiency. Requires the Navy to compute award fees based on individual task order ratings.	Undeterminable.[3]

[1]Includes an undetermined amount of questioned costs that may result from a review of $34.8 million of unverified invoiced costs.
[2]Any funds recovered will be returned to the DERA.
[3]Includes an undetermined amount of reduced award fee that will result from changing the method of computing award fees.

APPENDIX K - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Director of Defense Procurement, Washington, DC
Principal Deputy Assistant Secretary of Defense (Production and Logistics), Washington, DC
Deputy Assistant Secretary of Defense (Environment), Washington, DC

Department of the Army

Assistant Secretary of the Army (Installation, Logistics, and Environment), Washington, DC
Army Forces Command, Fort McPherson, GA
Environmental Restoration Division, Army Corps of Engineers, Washington, DC
Army Environmental Office, Washington, DC
Army Toxic and Hazardous Material Agency, Aberdeen Proving Ground, MD
Directorate of Engineering and Housing, Fort Lewis, WA

Department of the Navy

Assistant Secretary of the Navy (Installations and Environment), Alexandria, VA
Office of the Deputy Chief of Naval Operations (Logistics), (OP-45), Washington, DC
Deputy Chief of Staff of the Marine Corps (Installations and Logistics), Arlington, VA
Comptroller of the Navy, Washington, DC
Headquarters, Naval Facilities Engineering Command, Alexandria, VA
  Southern Engineering Field Division, Charleston, SC
  Western Engineering Field Division, San Bruno, CA
  Engineering Field Activity, Northwest, Silverdale, WA
Headquarters, Naval Sea Systems Command, Washington, DC
Naval Energy and Environmental Support Activity, Port Hueneme, CA
Public Works Department, Concord Naval Weapons Station, CA
Naval Audit Service, Arlington, VA

Department of the Air Force

Deputy Assistant Secretary of the Air Force (Environment, Safety, and Occupational Health), Washington, DC
Directorate of Environmental Quality, Office of the Civil Engineer, Bolling Air Force Base, Washington, DC

APPENDIX K - ACTIVITIES VISITED OR CONTACTED (cont'd)

Department of the Air Force (cont'd)

Environmental Management Office, Warner Robins Air Logistics Center, Robins Air Force Base, GA
Director of Acquisition and Logistics Audits, Air Force Audit Agency, Wright-Patterson Air Force Base, OH

Non-Defense Activities

Environmental Protection Agency, Region IV, Atlanta, GA
General Accounting Office, Washington, DC

Non-Government Activities

ABB Environmental Services, Incorporated, Tallahassee, FL
James M. Montgomery Consulting Engineers, Incorporated, Walnut Creek, CA
PRC Environmental Management, Incorporated, San Francisco, CA
URS Consultants, Incorporated, Seattle, WA

APPENDIX L - REPORT DISTRIBUTION

Office of the Secretary of Defense

Director of Defense Procurement
Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense
Deputy Assistant Secretary of Defense (Environment)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Installations, Logistics, and Environment)
Office of the Chief of Engineers (Chief, Army Environmental Office)
Commander, U.S. Army Corps of Engineers (Directorate of Military Programs)
Commander, I Corps and Fort Lewis, WA
Commander, U.S. Army Toxic and Hazardous Material Agency
Inspector General, Department of the Army
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Commandant of the Marine Corps
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Installations and Environment)
Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Deputy Chief of Naval Operations (Logistics)
Deputy Chief of Staff of the Marine Corps (Installations and Logistics)
Commander, Naval Facilities Engineering Command
  Commander, Southern Engineering Field Division
  Commander, Western Engineering Field Division
  Commander, Engineering Field Activity, Northwest
Commander, Naval Weapons Station, Concord, CA
Auditor General, Naval Audit Service

APPENDIX L - REPORT DISTRIBUTION (cont'd)

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Directorate of Environmental Quality, Office of the Civil Engineer
Commander, Warner Robins Air Logistics Center
Auditor General, Air Force Audit Agency

Non-Defense Activities

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center, General Accounting Office

Chairman and Ranking Minority Member of each of the Following Congressional Committees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Environment and Public Works
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Energy and Commerce
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Department of the Navy Comments

This page was left out of original document

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(INSTALLATIONS AND ENVIRONMENT)
WASHINGTON DC 20360 5000

14 April 1993

MEMORANDUM FOR THE DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE,
DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: DRAFT AUDIT REPORT ON NAVY CLEAN CONTRACT

Ref: (a) DODIG memo of 10 February, 1993

Per reference (a), Department of the Navy comments are provided in enclosure (1). This replaces a previous version.

Elsie L. Munsell

ELSIE L. MUNSELL
Deputy Assistant Secretary of the Navy
(Environment and Safety)

Copy to:
CNO (N45)
HQMC (CMC-LFL)
COMNAVFACENGCOM (02)

Final Report
Page No.

COMMENTS ON DRAFT REPORT
ON AUDIT OF THE COMPREHENSIVE LONG-TERM
ENVIRONMENTAL ACTION, NAVY CONTRACT
(PROJECT NO. 2CG-0012)

FINDING A: MANAGEMENT OF THE COMPREHENSIVE LONG-TERM ENVIRONMENTAL ACTION, NAVY CONTRACT

The Navy technical and contract personnel did not adequately monitor, control or challenge CLEAN contractor recorded expenditures and performance for remedial studies. These conditions existed because the Navy:

- o did not have uniform or approved procedures in place to monitor contractor performance and costs,
- o did not verify contractor invoiced costs,
- o did not maintain proper documentation on contractor performance, and
- o did not maintain trained RPMs in their required duties.

As a result, the Navy incurred unsupported subcontractor costs of $182,483 on $1.1 million of invoices for one contract and about $34.8 million of contractor invoices required additional verification. In addition, the Navy did not challenge $15 million of cost increases on 77 task orders valued at $72.5 million. Of the $15 million increase, $2.8 million was attributed to inadequate contractor performance.

NAVY RESPONSE

We concur with the need to improve management of the CLEAN contract. We had identified many of the same problems and initiated the following actions to solve them -- developed and issued the CLEAN Contract Manual and the Environmental Contract Quality Management Guide and established an Environmental Cost Reimbursement Course.

Revised
1

The CLEAN contract is not a "multi-year" contract as described in the FAR Subpart 17.1 and quoted on page 4 of the draft audit report. It is a one-year contract with option years, which lessens the risk to the government. The audit report listing on page 8 of duties and responsibilities of Remedial Program Managers (RPMs) should include preparing an independent government cost estimate for each task order or modification to a task order. This is required to be prepared before the contractor submits his technical and cost proposal. This requirement differs from that noted in the GAO audits of the

1

ENCL I

Environmental Protection Agency where employees merely reviewed cost proposals submitted by the contractor.

We concur with your finding that some RPMs do not monitor professional labor hours. It is difficult to assess the extent of this finding since the report states (on page 8) that all 29 ROMs reviewed only total costs and (on page 9) that only 8 of the 29 RPMs did not monitor professional labor hours.

The section on challenging contract cost increases includes two suggestions under inadequate monitoring which cause some difficulty:

a. We concur with the statement that inadequate contractor performance contributed to cost increases in some cases. However, it does not necessarily follow that the government monitoring would prevent the inadequate performance; and costs resulting from reasonable contractor decisions are reimbursable. Appendix E lists "Cost Increases Attributed to Contractor Performance." Several items like EFA Northwest CTO #5, Modifications 5 and 6, are increases for additional testing which was known to be a possible requirement at the time of CTO award. We choose not to have any contingent amounts reflected in the original CTO negotiation on which available award fee is calculated. We include such amounts in a later modification when they are determined to be absolutely required. The original work plan is not a complete statement of all work which might be required or even testing processes which will eventually be used. In most cases it is the contractor's best estimation of the requirement before any testing which would permit a risk-free conclusion. We concur with the work plan based on the data available at that time. Disagreement can be expected since there is more than one possible solution for remedial investigations. The work plan is meant to be adjusted as additional data becomes available. It is not a case of contractor inadequate performance when he does not include contingencies in the original cost estimate nor does the choice not to include them in the original CTO award increase the ultimate cost of the project.

b. The modifications listed in Appendix E included the costs associated with rework caused by the broken test samples by the prime which could not be prevented by government monitoring. The prime contractor also made a choice of using a mobile laboratory. The choice, if effective, would have reduced costs. Unfortunately, the lab exceeded holding times on samples and caused some rework. The contractor was penalized in the award fee for poor cost control and management of the lab. Regarding fixed-price subcontracts, the subcontractors were required to perform any rework at no cost to the Government.

c. While some RPMs may not have challenged invoiced items, cost growth increases were challenged during the preparation of

modifications. The contractor cannot invoice for cost growth until the following procedures is completed:

1. The subcontractor notifies the Navy that a cost growth will occur, either because of changed work requirements or inadequate original estimates.

2. The RPM prepares a Statement of Work (SOW) describing any additional requirements and an independent government cost estimate.

3. The Contract Specialist and the RPM prepare a joint Pre-Negotiation Position (PNP).

4. The modification is negotiated and documented using an SF 30 (Amendment of Solicitation/Modification of Contract) and increasing the funding.

5. Award fee is not added for any amount resulting from cost growth but only for amounts required as a result of added work not originally known to be necessary.

[DODIG] RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Commander, Naval Facilities Engineering Command:

RECOMMENDATION 1. Require Naval engineering field activities to implement procedures contained in the Naval Facilities Engineering Command Manual P-1070, "CLEAN Contract Manual," July 1992. Specifically, implement contractor invoice verification and direct labor hours monitoring procedures.

NAVY RESPONSE: CONCUR. The Naval Facilities Engineering Command Manual P-1070, "CLEAN Contract Manual" was issued in final form in July 1992. The policies it contains, including invoice review, were reinforced by week-long visits of the headquarters CLEAN Contract Assist Team from 12 May 1992 through 11 December 1992. The manual is also used as one of the textbooks in the Environmental Cost Reimbursement Course being offered 5 times during FY 1993. We consider the corrective action implemented by NAVFACENGCOM to meet the intent of the recommendation and should be noted by DODIG as a closed recommendation.

RECOMMENDATION 2. Require Naval engineering field activities to sample task orders awarded since the inception of the CLEAN contract, perform invoice reviews using procedures contained in the CLEAN Contract Manual, and recover any unsupported costs.

NAVY RESPONSE: CONCUR. We will issue instructions to NAVFAC CLEAN contract administrators to sample task orders awarded from the inception of the contract until the date when they

implemented the CLEAN Manual invoice procedure and recover any unallowable or unsubstantiated costs. Corrective action will be completed by 31 December 1993.

RECOMMENDATION 3. Revise the CLEAN Contract Manual to establish procedures to evaluate proposed contractor cost increases and to create a minimum requirement for recordkeeping to monitor contractor performance for professional labor hours and expenditures.

NAVY RESPONSE: CONCUR. Recordkeeping to monitor contractor performance is covered in Section V.1.h. of the CLEAN Contract Manual (NAVFAC P-1070) that became an official document in July 1992 and is reinforced in the Contracting Officer's Technical Representative (COTR) portion of the Environmental Cost Reimbursement Contract Course. This course was first offered on 22 April 1992. The procedures to evaluate cost increases under the CLEAN contract are the same as those required under FAR Parts 31 and 43 and supplementary regulations for the negotiation of modifications to any contract. We consider the action implemented by NAVFACENGCOM to meet the intent of the recommendation and should be noted by DODIG as a closed recommendation.

RECOMMENDATION 4. Direct the Contracting Officer, Western Engineering Field Division to:

a. Recover unsupported subcontractor invoiced costs of $182,483 (Appendix D).

b. Sample and perform an invoice review of subcontractor costs billed to the prime contractor and recover any unsupported costs.

c. Require the prime contractor to initiate invoice review procedures for subcontractors, as specified in the CLEAN Contract Manual.

NAVY RESPONSE: CONCUR. Headquarters, NAVFACENGCOM assistance will be offered to Western Division in their review and recoupment of unsupported costs identified in the audit report as well as the review and recovery of unsupported costs identified in any past invoices. Additionally, Headquarters, NAVFACENGCOM will provide assistance to Western Division as necessary to ensure the prime contractor will initiate invoice review procedures for subcontractors as specified in the CLEAN Contract Manual. Estimated completion date is 31 December 1993.

RECOMMENDATION 5. Provide necessary contract administration training to contracting and technical personnel working on the CLEAN contract at Naval engineering field divisions and activities.

Final Report
Page No.

NAVY RESPONSE: CONCUR. The Environmental Cost Reimbursement Contract Course, including COTR training, was offered beginning on 22 April 1992, with five scheduled offerings during FY 1993. The audience includes Contract Specialists, RPMs, and financial representatives involved in administration of the CLEAN contract; Command Evaluation staff representatives from Headquarters and EFDs/EFAs; and representatives from field contract offices at local activities. We consider the corrective action implemented by NAVFACENGCOM to meet the intent of the recommendation and should be noted by DODIG as a closed recommendation.

FINDING B. COMPUTATION OF CONTRACTOR AWARD FEES

The Naval engineering field activities inappropriately awarded higher award fees than the contractors were entitled to receive. Higher award fees were paid because Navy award fee procedures gave the contractor nearly 75 percent of the available fee for average performance at two of the three activities we visited. The Navy also used arithmetical averages in computing award fees, which permitted the contractor to be paid an award fee for inadequate performance at two activities. As a result, contractors were not motivated to correlate good performance with award fees and were unnecessarily paid $701,500 for average performance and paid $107,200 for inadequate performance.

Revised, corrected to $108,200 page 15

NAVY RESPONSE:

The original Award Fee conversion charts were based on a weighted guidelines analysis which would result in a 6% to 7% profit rate if a fixed price or fixed fee contract had been contemplated. Therefore an acceptable performance was calculated to receive a 6% to 7% fee and the excellent and marginally acceptable ranges were calculated above and below this average. The Award Fee conversion charts were negotiated locally as part of the award of the CLEAN contract. Brooks Act selection was made in accordance with CERCLA requirements. These procedures require selection of the most qualified through technical evaluation only, followed by cost or price negotiation with the most highly qualified. The first choice receives award if a satisfactory cost negotiation can be achieved. The award fee chart was negotiated in conjunction with negotiations for ceiling wage and indirect rates and maximum multipliers, program management office size and allowances, insurance, regional differences in contaminants and risks under differing state requirements, etc. EFA Northwest, due to their particular situation with regard to their contractor, made a local decision to lower the award fee rates. While it is true that award fee payments would be less under the revised EFA Northwest chart, payment of the lowest possible award fee or making it more difficult for a contractor to achieve more than 5% will not necessarily improve performance.

[DODIG] RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Commander, Naval Facilities Engineering Command:

RECOMMENDATION 1. Direct the Western Engineering Field Division and the Southern Engineering Field Division to revise their award fee percentage charts to more equitably distribute the award fee in order to provide the contractor an incentive to improve performance.

RECOMMENDATION 2. Direct the remaining Naval engineering field activities administering the CLEAN contract to review their award fee percentage charts and revise those charts that do not equitably distribute award fees based on contractor performance.

RECOMMENDATION 3. Establish procedures to compute award fees based on individual task order ratings, not on an average of all task order ratings.

NAVY RESPONSE TO RECOMMENDATIONS 1, 2, AND 3. CONCUR with intent of recommendations. However, we submit a proposed alternative to the recommendations based on the following action initiated by NAVFACENGCOM:

Since a major problem appears to be the inclusion of award fee for unsatisfactory CTOs in the pool available, a meeting of representatives of various EFDs was held on 25-26 February 1993 to devise a new Award Fee Plan which would be utilized on all of the CLEAN contracts.

NAVY'S PROPOSED ALTERNATIVE TO RECOMMENDATIONS 1, 2, AND 3.

The revised plan precludes earning of any award fee associated with unsatisfactory CTOs. The award fee will be calculated on the remaining CTOs on an individual basis. The final decision on the total fee to be awarded the contractor will be made by the Fee Determination Official who may consider in addition to the individual ratings any specific elements of performance on individual CTOs, any trends in performance on all CTOs, and any general economic or business trends which may affect performance capability.

Negotiations of the new Award Fee Plan on all of the CLEAN contracts, which can only occur 30 days before the beginning of a new evaluation period, is expected to be achieved by 31 December 1993.

AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Wayne K. Million, Audit Program Director
Nicholas E. Como, Audit Project Manager
Riccardo R. Buglisi, Senior Auditor
Bucceroni Mason, Senior Auditor
Elizabeth A. Lucas, Auditor
Anna C. Grannas, Auditor
Chris E. Johnson, Auditor
Margaret Kanyusik, Editor
Frank Ponti, Statistician
Doris Reese, Administrative Support